

D.P.U. 94-7C

Application of Nantucket Electric Company:

(1) under the provisions of G.L. c. 164, § 94G and the Company's tariff, M.D.P.U. 193B, for approval by the Department of Public Utilities of a change in the quarterly fuel charge to be billed to the Company's customers pursuant to meter readings in the billing months of August, September, and October 1994; and

(2) for approval by the Department of rates to be paid to Qualifying Facilities for purchases of power pursuant to 220 C.M.R. §§ 8.00 et seq. The rules established in 220 C.M.R. §§ 8.00 et seq. set forth the filings to be made by electric utilities with the Department, and implement the intent of sections 201 and 210 of the Public Utilities Regulatory Policies Act of 1978; and

(3) under the provisions of G.L. c. 164, § 94G for approval by the Department of the actual unit by unit and system performance of the Company with respect to each target set forth in the Company's approved performance program.

APPEARANCES: Stephen H. August, Esq.
Robert Werlin, Esq.
Keohane & Keegan
21 Custom House Street
Boston, Massachusetts 02110

FOR: NANTUCKET ELECTRIC COMPANY
Petitioner

L. Scott Harshbarger
Attorney General of the Commonwealth
By: Kevin J. McNeely
Assistant Attorney General
Regulated Industries Division
131 Tremont Street
Boston, Massachusetts 02111
Intervenor

Jane Walton
22 North Pasture Lane
Nantucket, Massachusetts 02554
Limited Participant

I. INTRODUCTION

On June 28, 1994, pursuant to G.L. c. 164, § 94G and 220 C.M.R. §§ 8.00 et seq., Nantucket Electric Company ("Nantucket" or "Company") notified the Department of Public Utilities ("Department") of the Company's intent to file a quarterly change to its fuel charge in conformance with its tariff, M.D.P.U. 193B, and to its Qualifying Facility ("QF") power purchase rates in conformance with its tariff, M.D.P.U. 193B. The Company requested that both these changes be effective for bills issued pursuant to meter readings for the billing months of August, September, and October 1994. The matter was docketed as D.P.U. 94-7C.

Pursuant to notice duly issued, a public hearing on the Company's application was held on July 21, 1994, at the Department's offices in Boston. Notice of the hearing was published by the Company in the Nantucket Beacon. The Company also complied with the requirement to mail a copy of the notice of the hearing to all persons with whom the Company has special retail contracts that do not incorporate a filed rate, and to all intervenors and their respective counsel from the Company's prior two fuel charge proceedings. The Attorney General of the Commonwealth ("Attorney General") intervened pursuant to G.L. c. 12, § 11E. Jane Walton, a residential customer of the Company, was granted status as a limited participant (Tr. at 5). No other petitions for leave to intervene were filed. Ms. Walton filed a brief ("Walton Brief") and the Company filed a reply ("Company Reply Letter").

The Company's filing included performance results for the Company's generating units for the period between April 1, 1993 through March 31, 1994. In order to more fully investigate the performance results, the Department continued its investigation of that matter for 90 days (id.).

At the hearing, the Company sponsored one witness: Douglas Kenward, director of planning and regulatory affairs for the Company. The evidentiary record includes seven exhibits submitted by the Company,¹ and responses to two Department record requests.

Nantucket supplies electricity at retail cost to the Island of Nantucket, which is not interconnected with the mainland or with any other electric company or system. Thus, the Company is distinguishable from most other New England utilities in that it is completely dependent on itself and any nonutility power producers on Nantucket Island for its generation needs. The Company's generating plant consists of thirteen internal combustion (diesel) engines and associated generators, variously sized from 700 kilowatts ("KW") to 6,900 KW, with a total installed generating capacity of approximately 32,250 KW. The Company has 7,528 customers on a monthly basis, of which approximately 2,000 are year-round customers. In its 1993 annual report to the Department, the Company reported retail revenues of \$12,328,618 from the sale of 83,040 megawatthours of electricity.

II. FUEL CHARGE

A. Fuel Adjustment Clause

On July 13, 1994, the Company filed with the Department its proposed changes to its fuel charge and QF power purchase rates for August, September, and October 1994. The Company proposes a fuel charge of \$0.04188 per kilowatthour ("KWH"). The proposed fuel charge is \$0.00048 per KWH more than the quarterly fuel charge of \$0.04140 per KWH approved by the Department in Nantucket Electric Company, D.P.U. 94-7B (1994) for meter readings for the

¹ On August 2, 1994, the Company filed a revision to Exhibit N-4. The revised Exhibit N-4 is hereby made part of the evidentiary record.

billing months of May, June, and July 1994.

The Company indicated that the increase in the proposed fuel charge is attributable to a smaller estimated cumulative overrecovery for the quarter ending July 1994, as compared with the higher estimated overrecovery for the quarter ending April 1994, which had the effect of increasing the total costs to be recovered in the Company's proposed fuel charge (Tr. at 10; Exh. N-1, at 6-7).

B. Specific Costs in Dispute

In her brief, Ms. Walton questions the Company's actions relating to an oil spill during an oil delivery on June 21, 1994 (Walton Brief at 1-2). Ms. Walton contends that the oil spill was the Company's fault because the Company improperly completed a tank cleaning just prior to the oil delivery (id.). According to Ms. Walton, the Company failed to remove blanks used in the fuel lines, and improperly installed certain gaskets during the cleaning process (id.). Ms. Walton estimates that the extra charges associated with this oil spill were \$1,297.80, and requests that the Company not be allowed recovery of these charges (id.).

In its reply letter, the Company disagrees that the costs associated with the June 21, 1994 oil delivery were imprudently incurred (Company Reply Letter at 1). The Company contends that the valve leak which occurred during the oil delivery was caused by a malfunctioning gasket, and was an unavoidable and random event (id.). Furthermore, the Company states that Company personnel took steps that minimized the amount of oil that leaked and the time required to repair the malfunctioning gasket (id.).

The Department finds that there is not enough evidence on the record to make a finding

on this issue, and additional investigation is warranted. The issue is more appropriately a subject for further review in the Company's annual performance review.

Accordingly, the Department finds that the resulting fuel charge is \$0.04188 per KWH, as outlined in Table 1 (attached).

III. QUALIFYING FACILITIES

Pursuant to the Department's rules in 220 C.M.R. §§ 8.00 et seq., rates to be paid to QFs for short-run power purchases are set with the same frequency as the fuel charge. A QF is a small power producer or cogenerator that meets the criteria established by the Federal Energy Regulatory Commission in 18 C.F.R. § 292.203(a) and adopted by the Department in 220 C.M.R. § 8.02.

Pursuant to the governing regulations, the Company is required to calculate short-run energy purchase rates on a time-of-supply basis for two rating periods: peak and off-peak. In addition, the Company is required to calculate a non-time-differentiated energy rate, i.e., a total period rate, which is a weighted average of the time-of-supply rates, where the weighting is a function of the number of hours in each rating period. See 220 C.M.R. § 8.04(4)(b).

The Company proposed the following standard rates to be paid to QFs during August, September, and October 1994:

Energy Rates By Voltage Level (Dollars/KWH)

<u>Voltage Level</u>	<u>Peak</u>	<u>Off-Peak</u>	<u>Total</u>
Primary	\$0.06574	\$0.06130	\$0.06418

Short-Run Capacity Rates (Dollars/KWH)

<u>Voltage Level</u>	<u>Short Run Capacity Rate</u>
Primary	\$0.023779

VI. EMD LEASE CHARGE

On June 24, 1994, the Department approved an Offer of Settlement involving the Long-Range Forecast and Resource Plan of Nantucket Electric Company. Nantucket Electric Company, D.P.U. 93-197 (1994). As part of that Order, the Department ordered that Tariff M.D.P.U. 332, filed with the Offer of Settlement, become effective on July 1, 1994, and that the tariff be subject to further review pursuant to G.L. c. 164. Id. at 14. Tariff M.D.P.U. 332 allowed the Company to recover certain expenses associated with the Company's lease and the installation of two General Motors Electro-Motive Division diesel generators ("EMD" units). The costs for the generators are to be recovered via an EMD Lease Charge, to be applied to customer bills as a per KWH charge. Id. The Tariff specified that the EMD Lease Charge is to be reconciled quarterly, in the same proceeding as the quarterly fuel charge, according to the same methodology as the fuel charge. Id.

The Company proposes an EMD Lease Charge for the months of August, September, and October of \$0.00594 per KWH (Exh. N-5). The charge was determined by dividing the total of three months of lease charges of \$141,000 by estimated KWH sales of 23,755,223 KWH (id.).

At the hearing, the Company stated that the EMD units were currently being installed on the island, and are due to be in operation mid-August (Tr. at 17). The Company also stated that, per the terms of the lease agreement, the Company is currently being billed for the units, and that

the Company instituted the EMD Lease Charge for customer bills in July (id. at 20). The Company provided a sample bill and customer notice illustrating how the EMD Lease Charge appears on customer bills (Exh. N-6). Subsequently, the Company clarified the language referencing the EMD Lease Charge on customer bills (RR-DPU-1).

In her brief, Ms. Walton urges the Department to adopt an EMD Lease Charge calculated on an annual basis rather than a quarterly basis (Walton Brief at 2-3). Ms. Walton maintains that an annualized charge would result in all customers, both seasonal and year-round, paying the same KWH charge for the EMD lease (id.). Ms. Walton contends that an annual reconciliation avoids seasonal customers paying less for the EMD units than year-round customers (id.). According to Ms. Walton, an annual reconciliation would be more simple for the Company, because the Company would have to reconcile the EMD Lease Charge only once per year (id.).

In response to a Department record request, the Company provided calculations for an annualized EMD Lease Charge (RR-DPU-2). Based on projections of system sales for the year August 1994 through July 1995, the Company projected an EMD Lease Charge of \$ 0.00661 per kilowatthour (id.). The Company also projected the impact of an annual- versus quarterly-reconciled EMD Lease Charge on a typical residential heating customer. According to the Company, both medium and large residential electric heat customers would receive a small savings from the adoption of an annualized EMD Lease Charge (id.).² Finally, the Company stated that it was not opposed to adoption of an annualized EMD Lease Charge (id., Tr. at 36).

² According to the Company, a typical medium residential electric heat customer would receive a total savings of \$2.62 on an annual bill of \$2,298.23, and a typical large residential electric heat customer would receive a total savings of \$4.07 on an annual bill of \$3,931.69 (RR-DPU-2).

The Department finds there is merit to the argument that all customers should be charged equally per amount of energy consumed for the EMD units, which will support peak requirements in both the summer and winter. Therefore, the Department finds that the EMD Lease Charge will be reconciled on an annual basis, and shall be \$0.00661 per KWH as outlined in Table 2 (attached).

V. FINDINGS

Based on the foregoing, the Department finds:

1. that the fuel charge to be applied to Company bills issued pursuant to meter readings for the billing months of August, September, and October 1994 shall be \$0.04188 per KWH.

(The calculation of the fuel charge is shown in Table 1 attached to this Order.); and

2. that the qualifying facility power purchase rates for August, September and October 1994 shall be the rates set forth in Section III above; and

3. that the EMD Lease Charge will be an annual charge, and will be \$ 0.00661 per KWH applied to Company bills issued pursuant to meter readings for the billing months of August 1994 through July 1995. (The calculation of the EMD Lease Charge is shown in Table 2 attached to this Order).

VI. ORDER

Accordingly, after due notice, hearing and consideration, it is

ORDERED: That Nantucket Electric Company is authorized to put into effect a quarterly fuel charge of \$0.04188 per KWH as set forth in Section V, Finding 1 of this Order for bills issued pursuant to meter readings for the billing months of August, September, and October 1994;

and it is

FURTHER ORDERED: That the fuel charge approved herein shall apply to kilowatthours sold to the Company's customers subject to the jurisdiction of the Department and shall be itemized separately on all such customers' electric bills; and it is

FURTHER ORDERED: That the Company's Qualifying Facility power purchase rates for the billing months of August, September, and October 1994, shall be those set forth in Section III of this Order; and it is

FURTHER ORDERED: That Nantucket Electric Company is authorized to put into effect an annual EMD Lease Charge of \$0.00661 per KWH as set forth in Section V, Finding 3 of this Order for bills issued pursuant to meter readings for the billing months of August 1994 through July 1995; and it is

FURTHER ORDERED: That Nantucket Electric Company file, within 30 days of the date of this Order, a revised Tariff M.D.P.U. 332 consistent with the findings in this Order; and it is

FURTHER ORDERED: That the Company amend its customer billing to include the EMD Lease Charge notice consistent with its response to RR-DPU-1; and it is

FURTHER ORDERED: That the Company, in all future fuel charge proceedings, shall notify all intervenors and their respective counsel from the Company's prior two fuel charge proceedings that it is proposing an adjustment to its fuel charge, and shall also notify these persons of the date scheduled for the hearing on the proposed fuel charge at least ten days in advance of the hearing; and it is

FURTHER ORDERED: That the Company, in all future fuel charge proceedings, shall provide all intervenors and their respective counsel from the prior two fuel charge proceedings with a copy of its fuel charge filing, in hand or by facsimile, on the same day it is filed with the Department; and it is

FURTHER ORDERED: That, pursuant to G.L. c. 164, § 94G(a) and (b), fuel costs allowed by this Order are subject to such disallowance as the Department may determine in any subsequent investigation of the Company's performance period that includes the quarter applicable to the present charges.

By Order of the Department,

Kenneth Gordon, Chairman

Barbara Kates-Garnick, Commissioner

Mary Clark Webster, Commissioner

Appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part.

Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. (Sec. 5, Chapter 25, G.L. Ter. Ed., as most recently amended by Chapter 485 of the Acts of 1971).